

BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2013-3-E; ORDER NO. 2013-____

IN RE:)	PROPOSED
Annual Review of Base Rates for Fuel)	ORDER APPROVING BASE RATES
Costs of Duke Energy Carolinas, LLC)	FOR FUEL COSTS

I. BACKGROUND

THIS MATTER comes before the Public Service Commission of South Carolina ("Commission") on the annual review of base rates for fuel costs of Duke Energy Carolinas, LLC ("Duke" or the "Company"). The procedure followed by the Commission is set forth in S.C. Code Ann. § 58-27-865, which provides for annual hearings to allow the Commission and all interested parties to review the prudence of the fuel purchasing practices and policies of an electrical utility and for the Commission to determine if any adjustment in a utility's fuel cost recovery mechanism is necessary and reasonable.

The parties appearing before the Commission in this Docket were Duke Energy Carolinas, LLC ("Duke"), the South Carolina Office of Regulatory Staff ("ORS") and the South Carolina Energy Users Committee ("SCEUC") (collectively referred to as the "Parties" or sometimes individually as a "Party"). Prior to the hearing, Duke and ORS entered into a Settlement Agreement ("Settlement Agreement"), which was filed with the Commission on August 20, 2013. SCEUC did not join in the Settlement Agreement and appeared at the hearing before the Commission on August 27, 2013, and presented testimony in raising certain issues with respect to Duke's fuel request.

II. JURISDICTION OF THE COMMISSION

In accordance with S. C. Code Ann. § 58-27-140 (1) (Supp. 2011), the Commission may, upon petition, "ascertain and fix just and reasonable standards, classifications, regulations, practices or service to be furnished, imposed, observed, and followed by any or all electrical utilities." Further, S. C. Code Ann. § 58-27-865(B) (Supp. 2011) states, in pertinent part, that "[u]pon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period."

Consistent with the requirements of S. C. Code Ann. § 58-27-865(B), the Commission convened an evidentiary hearing to determine the issues in this Docket.

III. DISCUSSION OF THE HEARING AND THE SETTLEMENT AGREEMENT

The public evidentiary hearing in this matter was held on August 27, 2013, before this Commission with the Honorable G. O'Neal Hamilton presiding as Chairman. Representing the Parties were Brian L. Franklin, Esquire and Frank R. Ellerbe, Esquire for Duke; Scott Elliott, Esquire for SCEUC, and Shannon Bowyer Hudson, Esquire and Courtney Dare Edwards, Esquire for ORS. At the hearing, Duke and ORS presented their Settlement Agreement, which was admitted into the record as Hearing Exhibit 1.

Further, Duke and ORS presented witnesses in support of their Settlement Agreement and various other matters related to Duke's base rates for fuel costs. Duke's witnesses, David C. Culp, Joseph A. Miller, Jr., Robert J. Duncan, II, Will A. Garrett, Kim H. Smith and Sasha J. Weintraub, presented direct testimony on behalf of Duke via two panels. Mr. Culp, Mr. Miller,

and Mr. Duncan testified on the first panel and Ms. Weintraub, Ms. Smith and Mr. Garrett testified on the second panel

Duke witness, David C. Culp (General Manager of Nuclear Fuel Engineering for Duke Energy Carolinas, LLC), in his revised direct testimony provided information regarding Duke's nuclear fuel purchasing practices and costs for the period June 1, 2012 through May 31, 2013, review period and described changes expected in the October 1, 2013 through September 30, 2014 billing period.

Duke witness, Robert J. Duncan, II (Senior Vice President of Nuclear Operations for Duke Energy Carolinas, LLC) gave testimony describing and discussing the performance of McGuire and Catawba, as well as Duke's Oconee Nuclear Station, located in Oconee County, South Carolina, during the review period of June 1, 2012 through May 31, 2013.

Duke witness, Joseph A. Miller, Jr. (General Manager of Strategic Engineering for Duke Energy Business Services, LLC), gave testimony as to Duke's generation portfolio and changes made since the 2012 fuel filing, as well as those expected in the near term. He further discussed the performance of Duke's fossil-fueled and hydroelectric generating facilities during the period of June 1, 2012 through May 31, 2013, and their operating efficiency during this review period. He also provided information on significant outages that occurred during the review period.

Duke witness, Sasha Weintraub (Vice President of Fuels & Systems Optimization for Duke Energy Corporation), testified he is responsible for the procurement of fossil fuels and environmental reagents for the Duke Energy Carolinas, LLC and Duke Energy Progress, Inc. generation fleet, as well as for the generation fleets of the other Duke Energy regulated utilities.

He is also responsible for portfolio management and short-term power trading for Duke Energy and for the fossil fuel price forecasts used for fuel filings and resource planning purposes for all of Duke Energy's regulated utility subsidiaries. He described Duke's fossil fuel purchasing practices and provided fossil fuel costs for the period June 1, 2012 through May 31, 2013 and further described changes forthcoming in the billing period of October 1, 2013 through September 30, 2014. He further testified that he provided an update from a procurement and operations perspective on the Joint Dispatch Agreement ("JDA") that Duke Energy is using to deliver savings to its North Carolina and South Carolina customers, as well as fuel savings that Duke has realized to date on behalf of its customers, as a result of the merger agreement between Duke Energy and Progress Energy.

Weintraub testified that the joint dispatch savings will automatically flow through Duke's retail customers through their fuel clauses. Duke has guaranteed a certain amount of merger-related savings to its retail customers. Weintraub testified that through May 2013, the combined merger savings from the JDA and Duke's fuel procurement activities are \$106 million. Duke and Duke Energy Progress propose that the pre-merger savings be shared with Duke Energy Progress utilizing the sharing ratio for savings that occurred from July 2012 through December 2012.

In his Supplemental Testimony in support of the settlement agreement between ORS and Duke Energy Carolinas, LLC, when asked which commodities did Duke target in refreshing its assumptions and attempts to lower its fuel rate increase, Weintraub testified that:

As an example, pricing for natural gas for the period of October 2013 through September 2014 that was utilized for the May 31, 2013 forecast was \$4.30 per Million British Thermal Units ("MMBtu"), compared with \$3.77 per MMBtu for the August 2, 2013 forecast (the day of (Duke's) initial fuel filing before the Commission), and \$3.66 per MMBtu only a few days before filing the Settlement Agreement on August 20, 2013 between (Duke) and ORS.

Correspondingly, although the market price for coal that was utilized for the May 31, 2013 forecast was \$71.35 per ton, the market price only a few days before filing the Settlement Agreement was \$62.83 per ton. As a result of this new data, the Company was able to use these lower actual and forecasted figures to the benefit of customers by refreshing its assumptions based on these lower numbers and using those different assumptions to produce a fuel rate that was lower than what was filed on August 2, 2013.

As a result of the lower pricing for these commodities and as referenced in the Settlement Agreement on August 20, 2013 between (Duke) and ORS, (Duke) is now asking for a lower fuel rate increase for all of its South Carolina retail customers than what was originally communicated in its initial August 2, 2013 fuel filing.

(Supplemental Testimony of Sasha J. Weintraub in Support of Settlement Agreement, p. 3, ll. 6-21).

Duke witness, Kim H. Smith (Rates Manager for Duke Energy Carolinas, LLC), testified that she joined the Rate Department in 2008 as Rates Manager and is responsible for providing regulatory support for retail and wholesale rates, providing guidance on Duke's and Duke Energy Progress' Renewable Energy and Energy Efficiency Portfolio Standard compliance and cost recovery applications and the energy efficiency cost recovery process. She provided Duke's actual fuel and environmental cost data for the review period of June 1, 2012 through May 31, 2013, the projected fuel and environmental cost information for the forecast period of June 1, 2013 through September 30, 2013, and Duke's proposed fuel factors by customer class for the billing period October 1, 2013 through September 30, 2014.

Duke witness, Will Garrett (employed by Progress Energy Service Company, LLC as Director of Accounting Research for Duke Energy Corporation), in his Rebuttal Testimony testified to the accounting implications and negative consequences of deferring the fuel increase, as proposed by SCEUC witness, Kevin O'Donnell. Garrett testified that:

As a practical matter any rate deferral mechanism that is contemplated or implemented on or about the same time as a rate case involving newly completed plant must be evaluated for phase-in accounting implications. As is the case here, a plan to collect under recovered fuel expense over two years (versus a normal one-year recovery lag) that is implemented at the same time as a base rate change involving newly completed plant would create phase-in plan accounting issues.

(Prefiled Rebuttal Testimony of Will A. Garrett, p. 5, ll. 14-19).

Garrett testified that Duke would have a direct and negative material impact of \$30-35 million to its financial results and reported net income, and would report lower earnings in the period that it was unable to defer the under-recovered fuel costs.

SCEUC witness, Kevin W. O'Donnell, testified as to the impact of the fuel rate increase requested on Duke's customers and in particular on Duke's industrial customers. Mr. O'Donnell testified that the elimination of a DSM credit, effective June 1, 2013, resulted in a 4.5% increase on average to industrial customers. Further, industrial customers could anticipate that the settlement in Duke's rate increase in Docket No. 2013-59-E would increase rates an additional 5% effective October 1, 2013. Duke's requested fuel factor and anticipated DSM/EE increase, effective October 1, 2013, and January 1, 2014, respectively, would result in an additional 8.9% rate increase with a total rate increase to Duke's industrial customers of 18.4% over the period June 1, 2013 through January 1, 2014. (O'Donnell Prefiled Direct Testimony, p. 4, ll. 4-15). Mr. O'Donnell further testified that Duke experienced two unplanned but unnecessary outages at its McGuire Nuclear Plant and recommended that Duke should pay for the incremental cost of power associated with the McGuire outage. (O'Donnell Prefiled Direct Testimony, p. 6, l. 8 – p. 7, l. 11). The ORS likewise testified as to the nature and causation of these outages and recommended that Duke pay for these outages and Duke has agreed to pay for these outages.

Mr. O'Donnell testified that the 18.4% rate hike constituted a rate shock to Duke's South Carolina customers and recommended that Duke spread the full increase over a period of two years, recovering one (1/2) half of its fuel increase during the period October 2013 through September 2014 and the second half of the fuel increase to be recovered October 2014 through September 2015. Mr. O'Donnell recommended that Duke be allowed to recover interest on an amount equal to one (1/2) half of the fuel cost increase beginning October 1, 2014, until that amount was recovered or September 30, 2015, whichever occurred first. Mr. O'Donnell recommended an interest rate equal to the three-year Treasury bond rate, plus 65 basis points. By allowing interest on one (1/2) half of the unrecovered balance, Duke would be, at worst, indifferent financially as to the unrecovered fuel balance. The phase-in of the fuel increase would assist manufacturers in sustaining this period of high rate increases from Duke thereby preventing a further degradation of Duke's industrial sales. (O'Donnell Prefiled Direct Testimony, p. 7, l. 21 - p. 8, l. 10).

In his surrebuttal testimony, Mr. O'Donnell elaborated on the impact to industrial customers from the fuel cost increase alone. Mr. O'Donnell testified that the impact of the fuel increase alone could result in rate increases in excess of \$1 million and perhaps as much as several millions of dollars for a large industrial customer. Mr. O'Donnell testified that the rate hikes will cause significant hardship for manufacturers and employers in this state and reiterated his recommendation for a phase-in of the fuel rate increase. (O'Donnell Surrebuttal Testimony, p. 2, l. 6 – p. 3, l. 11). Mr. O'Donnell pointed to S. C. Code Ann. § 58-27-865(G) as an authority for his recommendation. Mr. O'Donnell noted that there existed precedent for his recommendation citing Order No. 2011-319 in Docket No. 2011-2-E wherein SCE&G was

allowed to recover its fuel costs over a two-year period in the same manner which O'Donnell proposed in this Docket. (O'Donnell Surrebuttal Testimony, p. 3, l. 13 – p. 4, l. 20).

Responding to the testimony of Duke Witness Garrett, Mr. O'Donnell pointed out that under his recommendation, Duke would not be denied its right to fully recover its fuel costs in this proceeding. He observed that Mr. Garrett's objection to the phase-in was one-sided. While a phase-in may have some impact on Duke's stated earnings for the period, the impact is minimal when compared to Duke's anticipated net income in excess of \$2 billion. Moreover, Mr. O'Donnell points out that Duke would report the amount of \$30 - \$35 million deferred to 2014 and 2015 as revenue during the 2013-2014 period and, therefore, would not be adversely impacted by the phase-in. In fact, Mr. O'Donnell pointed out the deferred balance of \$30 - \$35 million would increase gross revenue without any associated revenues for the period of 2014-2015 thereby enhancing Duke's earnings for that future period. (O'Donnell Surrebuttal Testimony, p. 4, l. 22 – P. 5, l. 26).

Last, in surrebuttal testimony, Mr. O'Donnell updated his rate impact to manufacturers in South Carolina and noted the total rate hike to be absorbed by Duke's manufacturers is 17.2% from the period June 1, 2013 through December 31, 2013. Mr. O'Donnell further notes that the Company did not contest the fact that with the approval of its amended requested fuel rate increase, Duke's manufacturers will be forced to absorb a total rate hike of 17.2% over a seven (7) month period and reiterated his recommendation that the Commission require Duke to phase-in the rate increase over a two-year period.

ORS witness, Michael Seaman-Huynh, testified that the primary drivers causing the increase in the fuel factor are the increases in the cost of delivered coal and nuclear fuel and the

depletion of Duke's historical over-recovered balances of \$57,873,577.00 in base costs and \$8,160,813.00 in environmental costs from its last fuel proceeding. The witness testified that ORS recommended making an over-recovery adjustment of \$1,699,158.00 to the Company's base fuel costs to recognize an additional dollar amount for replacement due to the extension of a scheduled refueling outage at McGuire Unit 2. Mr. Seaman-Huynh recommended making an over-recovery adjustment of \$106,371.00 to the Company's base fuel costs to reflect penalties paid to CSX Transportation as a result of coal shipments that did not meet contractual train minimum weights. The witness also recommended on behalf of ORS that the Commission reduce the Company's forecasted natural gas fuel costs by \$3,436,728.00 to reflect lower forecasted natural gas costs. (Seaman-Huynh Prefiled Direct Testimony, p. 10, l. 9 – p. 11, l.11). The witness also testified that ORS removed \$1,381,645.00 in gypsum costs from the environmental forecast for the months of October 2013 through September 2014. In addition to those costs removed by ORS witness, Gaby Smith, for the estimated months of July 2013 through September 2013, the effect of the adjustments results in the ORS recommending an environmental fuel factor for each class as follows: 0.0525 cents per kilowatt hour for residential customers; 0.0313 cents per kilowatt hour for general/lighting customers; and 0.0200 cents per kilowatt hour for industrial customers. (Seaman-Huynh Prefiled Direct Testimony, p. 11, ll. 12-22).

ORS witness, Gaby Smith, presented the results of the ORS audit staff's examination of the books and records pertaining to Duke's operations under the Fuel Adjustment Clause ("FAC"). The current fuel examination covered the actual period of June 2012 through May 2013 and four estimated months from June 2013 through September 2013. The first purpose of

the ORS examination was to determine whether Duke's accounting practices in computing and applying the monthly FAC had been in compliance with S. C. Code Ann. § 58-27-865. (Gaby Smith Prefiled Direct Testimony, p. 2, ll. 1-12).

Ms. Smith testified the ORS made certain adjustments. To wit:

- An over-recovery adjustment of \$1,699,158.00 to the deferred fuel accounts' cumulative balance as of May 2013 because of the need of replacement power due to an extended outage at McGuire Unit 2 during the review period;
- An over-recovery adjustment of \$106,371.00 to account for South Carolina's retail portion of Duke's minimum train weight penalties to certain coal suppliers;

(Gaby Smith Prefiled Direct Testimony, p. 9, ll. 9-21).

Ms. Smith testified that the ORS found that as of September 2013, using a base fuel cost component cumulative under-recovery balance of (\$2,683,314.00) and an environmental cost and permanent cumulative over-recovery balance of \$2,837,584.00, the combined result totals an over-recovery of \$154,270.00. Ms. Smith also testified that Duke's accounting practices were in compliance with S. C. Code Ann. § 58-27-865. (Gaby Smith Prefiled Direct Testimony, p. 12, ll. 1-13).

Settlement Agreement

Duke and ORS have entered into a settlement agreement resolving the issues between them. The effect of the settlement agreement is to accept all recommendations by the ORS and Witness Seaman-Huynh's testimony and the accounting adjustments set out in Witness Gaby Smith's testimony. In addition, Duke will reduce its requested fuel increase to a fuel factor of 2.1567 cents per kilowatt hour with the environmental factors as set out in Exhibit 1. The net effect of the settlement agreement is to reduce the rate impact on Duke's industrial customers to 5.64%. SCEUC does not contest Duke's amendment to its fuel request but, rather, recommends

that Duke's rate payers not be required to bear the full impact of the rate increase at this time but to defer one (1/2) half of the requested rate increase to 2014-2015.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW.

SCEUC PROPOSAL TO DEFER CERTAIN FUEL COSTS

SCEUC requests that the Commission defer the recovery of certain fuel costs to the period October 2014 through September 2015. In particular, SCEUC argues that the Commission is authorized to set fuel rates which defer recovery of an amount equal to one (1/2) half of the requested rate increase with interest. The Commission concurs with SCEUC and concludes that it is authorized by statute to set rates in a manner that authorizes Duke to recover its prudently incurred fuel costs over a two-year period.

Mr. O'Donnell's testimony reflects that if Duke's 5.64% rate increase on industrial customers is granted by the Commission, Duke's industrial customers will experience at 17.2% rate increase over the period June 2013 to January 2014. Mr. O'Donnell testified that a rate increase of 17.2% constitutes rate shock. ORS witness, Michael Seaman-Huynh, concurs with Mr. O'Donnell that a 17.2% rate increase would constitute rate shock (Tr. p. 323, ll. 9-14). Duke's testimony does not dispute the impact of its rate increases as rate shock to its customers. However, Duke argues that the Commission is powerless in this Docket to set rates in a manner that addresses rate shock.

As creatures of statute, regulatory bodies such as the Public Service Commission are possessed of only those powers which are specifically delineated. *South Carolina Electric & Gas Co. v. South Carolina Public Service Commission*, 275 S.C. 487, 272 S.E.(2d) 793 (1980); *City of Columbia v. Board of Health & Environmental Control*, 292 S.C. 199, 355 S.E.2d 536

(1987). However, by necessity, the Public Service Commission possesses not only the powers expressly conferred upon it but also those which must be inferred or implied for the Commission to effectively carry out the duties with which it is charged. *City of Columbia v. Board of Health & Environmental Control, supra*; *Carolina Water Service, Inc. v. South Carolina Public Service Commission*, 272 S.C. 81, 248 S.E.(2d) 924 (1978); *Beard-Laney, Inc. v. Darby*, 213 S.C. 380, 49 S.E.(2d) 564 (1948).

S. C. Code Ann. § 58-27-865 defines fuel costs and sets out the duties of the Commission with respect to an electrical utility's recovery of its fuel costs. S. C. Code Ann. § 58-27-865(B) reads in its pertinent part:

The commission shall direct each electrical utility which incurs fuel cost for the sale of electricity to submit to the commission and to the Office of Regulatory Staff, within such time and in such form as the commission may designate, its estimates of fuel costs for the next twelve months. The commission may hold a public hearing at any time between the twelve-month reviews to determine whether an increase or decrease in the base rate amount designed to recover fuel cost should be granted. Upon conducting public hearings in accordance with law, the commission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.

By statute, the duties of the Commission are to direct the electrical utility to submit its estimates of fuel costs for the next twelve months and, after a hearing, direct an electrical utility to place in effect rates designed to recover during the succeeding twelve months the costs determined by the Commission to be appropriate for that twelve-month period adjusted for the over-recovery or under-recovery from the preceding twelve-month period. In determining what fuel rate is appropriate, the Commission is guided by statutory requirement that every rate made or received by an electrical utility be just and reasonable. S. C. Code Ann. § 58-27-810. Moreover, the

Commission takes guidance from S. C. Code Ann. § 58-27-865 (G) that the Commission “allow the recovery by electrical utilities of all prudently incurred fuel costs as precisely and promptly as possible, in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers.”

Duke argues that this Commission has no authority to defer recovery of fuel costs over a two-year period without an agreement by all of the parties to this Docket. Duke reads S. C. Code Ann. § 58-27-865 too narrowly.

First, the Commission finds no such limitation of authority under S. C. Code Ann. § 58-27-865. Rather, the statute directs the Commission to set fuel rates that are appropriate and the Commission derives its authority to defer recovery of fuel costs beyond a twelve-month period from the statutory directive that rates be just and reasonable and in the public interest.

The Commission has not hesitated to exercise its authority under S. C. Code Ann. § 58-27-865 to authorize an electrical utility recovery of its fuel costs beyond the twelve-month window described in S. C. Code Ann. § 58-27-865(B), when in the public interest. By Orders No. 2012-951 and 2013-41, in a fully litigated docket, the Commission authorized SCE&G to modify its fuel factor mid period and recover its fuel costs over a sixteen-month period, with carrying costs on the under-collected balance. SCE&G requested a mid-period reduction in base rates for fuel in Docket No. 2012-218-E. to coincide with the effect of its rate increase and to continue for sixteen (16) months until its 2014 fuel proceeding. SCE&G also sought carrying costs on the amount of under-collection in excess of \$24 million. No party in Docket No. 2012-218-E challenged the Commission’s authority to grant SCE&G’s request to set fuel rates for a sixteen-month period. However, the issue of carrying costs on the under-collected balance was

challenged and fully litigated in that Docket. The Commission exercised its authority under S. C. Code Ann. § 58-27-865 to approve a fuel factor for a period of in excess of twelve (12) months. Moreover, the Commission exercised its authority to allow SCE&G to recover carrying costs on the under-collected balance over \$24 million over the objection of SCEUC, a party to that Docket. In so doing, the Commission found the sixteen-month effective time frame for SCE&G's fuel factor and the carrying costs to be just and reasonable pursuant to S. C. Code Ann. § 58-27-810.

Mr. Donnell, on behalf of SCEUC, directs the Commission's attention to previous orders of this Commission, such as Order No. 2011-319 in Docket No. 2011-2-E, wherein the Commission authorized SCE&G to recover its fuel costs over a two-year period, with carrying charges on the balance in the second year. In so doing, the Commission found and concluded:

After hearing the evidence and testimony of the witnesses and reviewing the Settlement Agreement, the Commission finds and concludes that the fuel purchasing practices and policies, plant operations, fuel inventory management, and all other matters associated with S. C. Code Ann. § 58-27-865 (Supp. 2010) of SCE&G are reasonable and prudent, and that approval of the Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S. C. Code Ann. § 58-27-865 (Supp. 2010). The settlement allows recovery by SCE&G of fuel costs as precisely and promptly as possible and in a manner to assure public confidence and minimize abrupt changes in charges to customers. As such, it is in the public interest as a reasonable resolution of the issues in this case. We also find that the resolution of issues among the Settling Parties as set forth in the Settlement Agreement does not appear to inhibit economic development.

(Docket No. 2011-2-E, Order No. 2011-319, pp. 8-9).

SCEUC seeks to defer the fuel cost increase to avoid rate shock. It has long been established that a phase-in of rates is an effective tool to avoid rate shock. *Hamm v. The South Carolina Public Service Commission*, 294 S.C. 320, 364 S.E.2d 455 (1988). Duke's witness,

Will A. Garrett, testified that the deferral of phase-in of fuel rates would create accounting issues for Duke and cause them to record lower earnings in the amount of \$30 - \$35 million. However, Mr. Garrett failed to testify that Duke would record the \$30 - \$35 million deferred until 2014 as revenue for that period. Moreover, the amount is not material.

The rates as set by this Commission must be in the public interest. The public interest is defined by S. C. Code Ann. § 58-4-10(B):

Unless and until it chooses not to participate, the Office of Regulatory Staff must be considered a party of record in all filings, applications, or proceedings before the commission. The regulatory staff must represent the public interest of South Carolina before the commission. For purposes of this chapter, "public interest" means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the state's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

Deferring or phasing-in part of the fuel rates requested here in this Docket in 2014 will neither adversely affect Duke's financial integrity nor Duke's ability to provide reliable, high-quality utility services. However, the rate shock to Duke's customers will affect their trust and confidence in their utility and the deferral or phase-in of the fuel costs as proposed by SCEUC will minimize the abrupt change and charges to Duke's customers. Moreover, the phase in of fuel costs will mitigate the adverse impact of the fuel rate increase on economic development and job retention.

Accordingly, this Commission finds and concludes that deferring one (1/2) half of the proposed rate increase to be recovered during the period October 2014 through September 2015 with carrying costs will permit recovery by Duke of fuel costs as precisely and promptly as possible and in a manner to assure public confidence and minimize abrupt changes and charges to consumers. The resulting fuel rates are in the public's interest and the rates are just and reasonable.

SCEUC does not contest the balance of the provisions of the settlement agreement proposed by the ORS and Duke, to wit, the provisions of paragraphs 3, 4, 5, 6, 9 and 11. Having heard the testimony of the witnesses and representations of counsel and after careful review of the Settlement Agreement, the Commission finds that approval of the balance of the terms set out in the Settlement Agreement by and between Duke and ORS is consistent with the standards for fuel review proceedings conducted pursuant to S. C. Code Ann. § 58-27-865 and is supported by the substantial evidence in the record. Additionally, we find that the methodology for determining the environmental cost component of the fuel factors used by Duke in this proceeding consistent with the statutory requirements of S. C. Code Ann. § 58-27-865.

As reflected in Table A below, Duke proposes an increase of 0.2078 cents/kWh in its fuel rates for the period October 2013 through September 2014. Having concluded to approve the SCEUC proposal to defer one half of the fuel rate increase to the period October 2014 through 2015, Duke will be authorized to recover one half of the requested amount of 0.2078 cents/kWh or an additional 0.1039 cents/kWh during the period October 2013 through September 2014 with the balance to be recovered during the period October 2014 through September 2015.

Accordingly, the Commission will approve the fuel factor for Duke's customer as set out in Table B below:

Calculations for SCEUC Proposed Duke 2013 Fuel Rate

TABLE A	2012	2013	Settlement	SCEUC
	Base	Settlement Base	Proposed	Proposed
	Fuel Factor [1]	Fuel Factor [2]	Increase	Recommendation

Residential	1.9489	2.1567	0.2078	0.1039
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Commercial	1.9489	2.1567	0.2078	0.1039
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Industrial	1.9489	2.1567	0.2078	0.1039
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Sources:

1. p. 8 of Order in Docket No. 2012-3-E.
2. p. 4 of Settlement Agreement in Docket No. 2013-3-E.

TABLE B	2012	SCEUC	SCEUC	Environmental	Total
	Base	Proposed	Proposed		SCEUC
	Fuel Factor	Recommendation	Base Factors	Fuel Factors [3]	Prop. Factors

Residential	1.9489	0.1039	2.0528	0.0509	2.1037
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Commercial	1.9489	0.1039	2.0528	0.0302	2.0830
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Industrial	1.9489	0.1039	2.0528	0.0193	2.0721
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Sources:

3. p. 4 of Settlement Agreement in Docket No. 2013-3-E.

IT IS THEREFORE ORDERED THAT:

1. The fuel purchasing practices, plant operations, and fuel inventory management of Duke Energy Carolinas for the period June 1, 2012 through May 31, 2013, are reasonable and prudent.

2. Duke Energy Carolinas shall set its fuel factor (excluding environmental costs) at 2.0528 cents per kWh effective for bills rendered on and after the first billing cycle for the month of October 2013 and continuing through the last billing cycle for the month of September 2014.

3. Duke Energy Carolinas shall set its environmental cost component factor at 0.0509 cents per kWh for the residential customer class, 0.0302 cents per kWh for the general service/lighting customer class, and 0.0193 cents per kWh for the industrial customer class for bills rendered on or after the first billing cycle for the month of October 2013 and continuing through the last billing cycle for the month of September 2014.

4. Duke shall be allowed to charge and accrue carrying costs monthly on an amount equal to one (1/2) of its requested fuel rate increase in this Docket. The applicable interest rate used to calculate the carrying costs is the rate of interest as of the first day of each month during the applicable period for the three-year U. S. Government Treasury Note, as reported in *The Wall Street Journal*, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points). The total carrying costs rate to include the 65 basis points. The applicable period during which carrying costs may be applied begins October 1, 2014, and ends September 30, 2015, or when the under-collected balance is eliminated, whichever is first.

5. The provisions paragraphs 3, 4, 5, 6, 9 and 11 of the Settlement Agreement between Duke and ORS are incorporated herein and made a part hereof this Order.

6. Duke Energy Carolinas, LLC shall file with the Commission and ORS an original of the South Carolina Retail Adjustment for Fuel Cost and all other retail Tariffs within ten (10) days of receipt of this Order incorporating the findings herein.

7. Duke Energy Carolinas shall comply with the notice requirements set forth in S. C. Code Ann. § 58-27-865.

8. Duke Energy Carolinas shall account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. ORS shall review the cumulative recovery account.

9. Duke Energy Carolinas shall submit monthly reports, within forty-five (45) days of the end of each month, to the Commission and ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

10. Duke Energy Carolinas shall inform the Parties in the 4th quarter of the calendar year prior to the next annual fuel proceeding and in the 2nd quarter of the calendar year of Duke's next annual fuel proceeding, of the expected fuel factors to be set at its next annual fuel proceeding based upon Duke Energy Carolinas' historical over/under recovery to date and Duke Energy Carolinas' forecast of prices for uranium, natural gas, coal, oil and other fuel required for generation of electricity.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION, on this the ____ day of _____, 2013,

in Columbia, South Carolina.

Chairman

ATTEST:

Vice Chairman

(SEAL)